Insurance And Your Small Business

Introduction

Obtaining sufficient, affordable insurance is a growing concern for many small businesses in Nova Scotia. Although increases in the cost of auto insurance have attracted most of the publicity, the cost and availability of other types of insurance coverage is an issue, as well.

We are living in a time when people are increasingly willing to consider litigation when they are involved in an accident. That means that insurance to cover the costs of lawsuits has become an important business protection. Closing your eyes to risks and keeping your fingers crossed is no longer an option.

Property and business insurance are not mandatory in Nova Scotia, and rates are not regulated. Business owners must do their homework and make sure they have the proper coverage. This brochure will help you make the right choices in setting up such coverage.

What is insurance?

Insurance is a contract between you and your insurer. This contract protects you against specific risk or loss. When you pay an insurance premium, your money is placed into a pool of money along with thousands of other consumers. That pool is then used to reimburse the claims of the few who have the misfortune to have an insurance claim.

How Does It Work?

An insurance company collects money, called premiums, from all of its clients and uses that money to reimburse the claims of those clients who have losses.

How are premium costs determined?

Premiums are based on many factors. Basically, the insurance company uses statistics and research to figure out how great the risk is that your business will have a claim. The greater the risk, the higher the premium.

What is required?

Most businesses are not required by government to have any insurance to operate in Nova Scotia, but insurance is strongly recommended. But we recommend that you do. Your bank or your landlord may require that you have insurance as security for a loan or to cover property you are occupying.

What type of coverage should I have?

No matter how well a business is run there is always a chance that a disaster, natural or otherwise, will put it at risk. A variety of insurance products are available to protect you from those risks. What you need depends on the type of business you do and where you do it. Here are some types to consider:

Directors and Officers - If your company is large enough it may require this type of coverage. Often referred to as D&O, this insures corporate directors and officers against claims alleging financial loss due to company mismanagement. Such claims usually come from stockholders or employees.

Fidelity, Surety and Crime - Fidelity, surety and crime insurance covers your company for one of the most common business risks, the loss of property (including money!). With Internet hackers a fact of life, make sure that your business is covered for computer crimes, as well.

Business Property - This coverage is similar to what you would buy for your home to protect it against loss or damages caused by fire, windstorms, explosions, riots, accidents, and vandalism. This coverage may be mandatory if you lease your premises (check with your landlord). Remember, if you run a home-based business, your homeowner's policy will not cover damage to your business assets. You will need to protect your business assets with separate contents insurance.

Errors and Omissions - This coverage, often called E&O, is especially important for businesses that provide professional services (doctors, lawyers, dentists, and so on). It protects the insured against liability for committing an error or omission in performance of professional duties. Professional liability insurance is mandatory for certain types of professionals. Check with your professional association.

General Liability - Liability exposures exist all over your company, at every location. As the concept of personal responsibility continues to deteriorate in today's society, general liability coverage is needed to protect small businesses if claims arise from on-premise accidents, or from their business operations.

Awards for successful liability claims are rising and the business owner's personal assets may even be at risk. Your liability coverage should provide for both legal costs and settlements.

Product Liability - If your business manufactures a product you should have insurance to protect you against product failure that may injure your customers. Some

products are more prone to risk than others. For example you will need more coverage if you manufacture food than if you manufacture clothing.

Group Health - Although public health-care benefits are available to everyone in Canada, small business owners may want to provide supplementary coverage as an employee benefit. Coverage for prescription costs and dental expenses are welcomed by employees.

Key Person Insurance - Large corporations are set up so that the death or unexpected departure of a major executive will not cripple the organization. Many small businesses are not so lucky. The death or incapacitation of a key member of a small business could seriously jeopardize that business's future. By making money immediately available, key person insurance preserves your business's cash flow if an indispensable member of your business team dies suddenly or suffers a disabling illness or injury.

Employment Practices Liability Insurance (EPLI) - This insurance protects a small business against claims by its own workers. While most lawsuits are filed against large corporations, no company is immune to such lawsuits. This coverage might be either an endorsement to an existing business owner's policy or stand-alone coverage.

The number of lawsuits filed by employees against their employers has been rising. Claims include sexual harassment, discrimination, wrongful termination, breach of contract, wrongful discipline, wrongful infliction of emotional distress, and mismanagement of employee benefit plans.

A proper EPLI package will help protect your business, your employees, and your business's reputation. The cost of your coverage will depend on factors including your type of business, the number of employees you have, and various risk factors such as whether your company has been sued over employment practices in the past.

Auto Insurance - If you use your own car for your business, check with your insurance agent/broker to make sure you have the right coverage. You may need commercial coverage. You may qualify for fleet coverage (usually for five or more vehicles) or you may qualify for group rates through your membership in business associations. Check with similar businesses to see how they are covered.

Workers' Compensation - Workers' compensation in Nova Scotia is handled by the Worker's Compensation Board. The board is an independent body that collects premiums from employers and oversees the payment of benefits to claimants. To find out if your business must take part in the program, contact the board or visit its website at <www.wcb.ns.ca>.

What are your assets?

Take a complete inventory of all your business property. Be realistic when determining its value. If you value it for more than it's worth you will pay more for your coverage. If you undervalue it, your settlement may not give you enough to replace it.

Use this list as a starting point to develop a checklist for your own business. Make sure you include items that may be unique to you business.

- all types of buildings (leased or owned)
- signs, fences, and other unattached outdoor property
- office furniture, equipment, and supplies
- cash and securities
- records of accounts receivable
- data processing equipment, including computers and software
- leased equipment
- inventory
- improvements you made to the premises
- books and documents
- automobiles, trucks, construction equipment, and any other mobile property (such as a portable sign)
- boilers
- machinery
- intangible property (such as your company's reputation and trademarks)
- occupational health and safety training for employees

Make sure the items you do want to cover are provided for in the basic policy; if not, buy more coverage. If your business rents or leases space, check your coverage with your landlord. Your lease might require certain types of insurance coverage. Just because your building owner is insured, doesn't mean it will cover any of your equipment or possessions.

What is risk management?

Different businesses have different risks. How you manage your exposure to these risks will go a long way in

determining the size of your premium. Risk management is the key to getting the right insurance for your business.

Everything has some element of risk to it. Even those risks that cannot be avoided can be prepared for or minimized. That's where risk management comes in. You need to determine

- what can go wrong
- what you will do, both to prevent an accident and to respond to one
- if something happens, how you will pay for it

A well-thought-out risk management plan will help you recognize and deal with possible problems that may hurt your business.

Tips for managing risk:

- Put someone in your organization specifically in charge of risk management.
- Get help from your insurance broker/agent to develop your risk management plan. Too often we look at our insurance representatives as strictly sales people, but they are a valuable resource. Take advantage of their expertise and experience.
- Review previous claims that your business has made to help uncover problem areas.
- Stay in touch with industry organizations such as the Canadian Federation of Independent Business, the Tourism Industry Association of Nova Scotia, or your local chamber of commerce to keep up to date on current issues affecting small businesses. If there are trade publications produced for your industry you should keep an eye on stories about insurance issues.
- Have a process for studying and responding to user or

employee complaints and suggestions. Today's complaint about a ragged carpet could be tomorrow's trip-and-fall lawsuit.
- Make sure your staff are properly trained and screened.

Suggestions for working with staff:
- Check motor vehicle records for all staff who are driving on your company's behalf.
- Use consistent employment practices.
- Provide written guidelines for your employees to help them with issues such as sexual harassment.
- Follow up all staff or customer complaints promptly and document your response.

You need to be sensitive to problem areas without paralyzing your business. Encourage your employees to act as unofficial risk managers and welcome their suggestions.

While all accidents are preventable they still occur. If an incident occurs with your organization investigate all complaints promptly.

From whom should I buy my insurance?

In Nova Scotia, all insurance is provided by private, non-government insurance companies. They use brokers, agents, and service representatives to sell their insurance policies. They compete for your business.

An insurance broker sells insurance on behalf of a number of different insurance companies. It's always wise to ask a broker who and how many different insurance companies they will contact on your behalf. You will want to make sure they shop around with many different insurance companies for the best value for you.

An insurance agent represents a single company and may deal with different types of policies on behalf of that company.

Shop around to different insurance companies and find the best service and policy for you. It is also wise to ask friends, family, and co-workers about their experiences and for their recommendations. Be aware that the lowest price isn't always the best policy for you. When you're shopping around, make sure you talk to representatives about your specific needs.

What are underwriting rules?

Underwriters are the insurance company's research experts. Underwriting rules are used by underwriters to assess the risk they are being asked to take. In Nova Scotia, these rules are established by the insurance companies and are based on their own business needs.

Underwriting is essentially an exercise in assessing risk. The guidelines and rate structures established by insurance companies are based on the past loss experience of many years.

Once an underwriter has assessed your application, the company will make a decision as to whether to offer you a policy, and at what price or premium. If you have made your inquiry through an independent broker, you should expect that broker to get quotes on your file from different companies to get you the best deal.

Do insurance companies have to sell me insurance?

No. Insurance (other than auto insurance) is not mandatory in Nova Scotia and insurance companies are not required to insure anybody.

Hints for insurance buying

Insurance is a highly specialized product. Insurance companies evaluate the amount of risk they incur by insuring you. To keep this risk low and achieve the best rates, follow these tips:

- Shop around for the best price and service for your needs. Ask for brochures, check the yellow pages, or search the Internet for Nova Scotia insurance representatives.
- Consider higher deductibles (the amount of a claim that you have to pay before money from your insurance company kicks in). By contributing more toward the cost of a claim if you have an accident, you should receive a lower premium.
- Don't pay for coverage that you don't need. In Nova Scotia it's unlikely that you'll need earthquake coverage but coverage for wind damage is probably a must.
- Do what you can in addition to insurance to safeguard your business. Train your employees to maintain a safe workplace. Burglar alarms, sprinkler systems' up-to-date computer virus protection, and computer firewalls should lower your premium. Make sure your agent knows about these things.
- Pay your premium on time.
- Seek out discounts. Check with trade associations to see if they can help with group coverage or insurance expertise.
- Know from whom you're buying insurance. Do they represent one company or many?
- Ask your broker or agent a lot of questions to determine if they can find the right policy for you.
- If you run your business out of your home check with your agent/broker to see if a rider to your homeowner's

policy will provide enough protection for your business equipment.

What is the role of the new Nova Scotia Insurance Review Board?

The Government of Nova Scotia recently established the Nova Scotia Insurance Review Board to protect the public interest and to ensure fairness in the insurance industry. The board was set up to deal primarily with auto insurance rates (the only insurance that is mandatory in Nova Scotia). The Insurance Review Board can be contacted at 902-424-8685 or <nsirb@gov.ns.cs>.

What to do if there are problems

Insurance operations in Nova Scotia are generally overseen by Office of the Superintendent of Insurance. If you have a complaint about the actions of an insurance company, agent, broker, or adjuster, first take your complaint to the company. The company should have an ombudsperson to help you. There is also a toll-free, industry-supported ombudsperson service available at 1-800-565-7189 (email: consumercentreatlantic@gio-scad.org)

If you are not happy with the industry's response, then contact us.

Direct your complaint to:
Office of the Superintendent of Insurance
P.O. Box 2271
Halifax, NS B3J 3C8
Phone: (902) 424-6331
Fax: (902) 424-1298
Email: fininst@gov.ns.ca

Commonly used insurance terms

absolute liability

the insurance company's responsibility to a third party regardless of any statutory breaches on the part of the insured.

actual cash value

replacement or market value of damaged property less depreciation.

adjuster

a person who acts on behalf of an insurance company to evaluate and settle claims.

agent/broker

a person who solicits or offers insurance products on behalf of insurance companies.

cancellation

the termination of an insurance contract before it expires.

cancellation (flat)

an insurance company cancels a policy as of its effective date, without charging any premium to you. This may happen if an insurance company realizes it has given an incorrect quote. It may cancel the policy and refund all your money. It may also do this if they void the policy. It may void a policy if it determines that not all material information was provided to them to properly assess the risk.

cancellation (pro-rata)

an insurance company cancels a policy and adjusts the premium in proportion to the time the coverage was in effect. It refunds a portion of the premium back to you.

cancellation (short-rate)

an insurance company cancels a policy at your request before the expiry date and charges a premium larger than what would be applicable for the period insured. This must be provided for in the policy. Generally, this increased charge is made because fixed expenses have

been incurred by the insurance company. Insurance companies often use fixed rate tables to calculate the premium they have earned.

claim

a demand for payment for a loss under an insurance policy

deductible

the amount of loss that you are required to pay. For example, if you have $1000 in insured damage to your facility from vandalism and your deductible is $500, you will be responsible for $500 of the repair cost. The insurance company will pay for the other $500.

endorsement

a form amending the terms of the policy, sometimes called a rider.

lapse in coverage

companies rate a policy based on continuous insurance history. A short lapse in coverage is no longer a reason to decline someone insurance. It is, however, a factor in the rate charged by an insurer. Before canceling a policy for a short term, check with your insurance broker to determine how the lapse in coverage will affect you and your future insurability.

premium

the price you pay for the insurance policy, based on the risk assessment.

third party liability insurance

protects the insured against liability arising out of bodily injury or property damage to others. The insured and the insurer are the first and second parties to the insurance contract.

underwriter

a person who decides if an insurance risk is acceptable. The underwriter decides in what amount and on what terms the insurance company will accept the risk. Also called an insurer.

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